

**REPORT OF THE AUDIT OF THE  
BATH COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2005**

**ROSS & COMPANY, PLLC  
Certified Public Accountants**

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The Honorable Walter Shrout, Bath County Judge/Executive  
Honorable Randall Armitage, Bath County Sheriff  
Members of the Bath County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees – regulatory basis of the County Sheriff of Bath County, Kentucky, for the year ended December 31, 2005. This financial statement is the responsibility of the County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the Sheriff for the year ended December 31, 2005, in conformity with the regulatory basis of accounting, as described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 18, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Walter Shrout, Bath County Judge/Executive  
Honorable Randall Armitage, Bath County Sheriff  
Members of the Bath County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Has A Lack Of Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Bath County, Kentucky and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross & Company".

Ross & Company, PLLC

Audit fieldwork completed -  
August 18, 2006

BATH COUNTY  
 RANDALL ARMITAGE, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS

For The Year Ended December 31, 2005

Revenues

Federal Grants		\$	10,650
State - Kentucky Law Enforcement Foundation Program Fund			8,979
State Fees For Services:			
Finance and Administration Cabinet	\$	8,662	
Sheriff's Security Service		12,838	21,500
Circuit Court Clerk:			
Fines and Fees Collected			550
Fiscal Court			3,988
County Clerk - Delinquent Taxes			1,795
Commission On Taxes Collected			99,074
Fees Collected For Services:			
Auto Inspections		3,070	
Accident and Police Reports		108	
Serving Papers		9,970	
Carrying Concealed Deadly Weapon Permits		4,080	
House Bill 413		2,144	19,372
Other:			
Reimbursements		26,770	
Miscellaneous		5,622	32,392
Tax Penalty Fees			17,608
Interest Earned			755
Borrowed Money:			
State Advancement		51,479	
Bank Note		5,200	56,679
Total Revenues		\$	273,342

The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
 RANDALL ARMITAGE, COUNTY SHERIFF  
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS  
 For The Year Ended December 31, 2005  
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries	\$ 73,789
Other Salaries	26,457
KLEFPF	9,660

Employee Benefits-

Employer's Share Social Security	1,628
Employer's Share Retirement	1,895
Worker's Compensation	649
Unemployment Insurance	109

Contracted Services-

Vehicle Maintenance and Repairs	4,368
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Materials and Supplies-

Office Materials and Supplies	2,868
Uniforms	4,292

Auto Expense-

Gasoline	3,879
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Other Charges-

Conventions and Travel	103
Dues	300
Postage	406
Transport Prisoners	79
Carrying Concealed Deadly Weapon Permits	3,075
Miscellaneous	34

Capital Outlay-

Vehicles	<u>4,600</u>	\$ 138,191
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Debt Service:

State Advancement	51,479	
Notes	5,200	
Interest	<u>75</u>	<u>56,754</u>

Total Expenditures		<u>194,945</u>
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The accompanying notes are an integral part of this financial statement.



BATH COUNTY  
RANDALL ARMITAGE, COUNTY SHERIFF  
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES – REGULATORY BASIS  
For The Year Ended December 31, 2005  
(Continued)

Net Revenues	\$ 78,397
Less: Statutory Maximum	<u>67,071</u>
Excess Fees	\$ 11,326
Less: Training Incentive Benefit	<u>7,212</u>
Excess Fees Due County for 2005	\$ 4,114
Payments to Fiscal Court - February 14, 2006	<u>\$ 4,066</u>
Balance Due Fiscal Court at Completion of Audit	<u><u>\$ 48</u></u>

The accompanying notes are an integral part of this financial statement.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT

December 31, 2005

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

Kentucky Revised Statute (KRS) 64.820 directs the fiscal court to collect any amount, including excess fees, due from the County Sheriff as determined by the audit. KRS 134.310 requires the County Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2005 services
- Reimbursements for 2005 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2005

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the County Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent for the first six months and 10.98 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 22.08 percent for the first six months and 25.01 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the government's deposits may not be returned. The Sheriff does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

BATH COUNTY  
NOTES TO FINANCIAL STATEMENT  
December 31, 2005  
(CONTINUED)

Note 4. Federal Grants and Contracts

- A. The Bath County Sheriff's Office contracted with the United States Department of Agriculture to provide patrols in the Daniel Boone National Forest. The reimbursement for these patrols was not to exceed \$2,050. The Bath County Sheriff's Office expended \$2,050 for deputy salaries and was reimbursed \$2,050.
- B. The Bath County Sheriff's Office contracted with the U.S. Army Corps of Engineers to provide patrols at Cave Run Lake. The reimbursement for these patrols was not to exceed \$8,600. The Bath County Sheriff's Office expended \$8,600 for deputy salaries and was reimbursed \$8,600.

COMMENT AND RECOMMENDATION



BATH COUNTY  
RANDALL ARMITAGE, COUNTY SHERIFF  
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2005

INTERNAL CONTROL – REPORTABLE CONDITION AND MATERIAL WEAKNESS:

The Sheriff Has A Lack Of Adequate Segregation Of Duties

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We recognize the extent of segregation of duties is a judgment established by management. We also recognize this judgment is affected by certain circumstances beyond the elected official's control, such as functions prescribed by statutes and regulations and by budgetary constraints. Due to limited staff, a proper segregation of duties may be impossible. However, the lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness.

*County Sheriff's Response: None.*

*None*

PRIOR YEAR:

The Sheriff Lacks An Adequate Segregation Of Duties

*Comment repeated in current year.*

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the Bath County Sheriff for the year ended December 31, 2005, and have issued our report thereon dated August 18, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Bath County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- The Sheriff Has A Lack Of Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

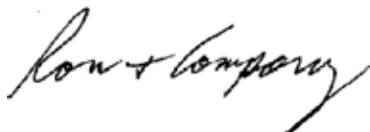
Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Bath County Sheriff's financial statement for the year ended December 31, 2005, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", is written over a horizontal line.

Ross & Company, PLLC

Audit fieldwork completed -  
August 18, 2006

